

## SAFCO

NEUTRAL

CURRENT PRICE SAR81.0

DOWNSIDE -7.9%

TARGET PRICE SAR74.6

EVENT FLASH

## Strong results despite long shutdowns

SAFCO reported a strong set of Q1 19 results with a net income of SAR335mn, increasing 41.4% yoy and but declining 41.0% qoq. The results were also stronger than the NCBC and consensus estimates of SAR190mn and SAR293mn, respectively. We believe the better than expected results are mainly due to 1) higher than expected operating rates despite shutdowns, and 2) lower costs of production following to efficiency programs that were implemented last year.

- Revenues stood at SAR719mn, declining 11.4% yoy and 34.1% qoq. This is 7.4% higher than our expectation. We believe the variance is due to either higher than expected operating rates of the operating facilities at 104% vs our estimates of 97% or the usage of inventory, provided our conservative assumptions due to the shutdowns announced by the company.
- Our conservative assumptions were based on long shutdowns announced by the company. Based on the annual report, SAFCO 3 started a 117 days shutdown to perform a debottleneck project to increase its capacity by 20% to 1.32mn tons. The shutdown started on 11 January 2019. Moreover, SAFCO 2 began a 43 days shutdown on 15 March 2019. This facility has a capacity of 1.1mn tons.
- A key highlight of the results is the strong expansion in margins despite long shutdowns. The company attributed it to efficiency programs implemented last year. Gross margins came in at 52.6% vs 44.2% in Q1 18 and our estimates of 40.4%. Sustaining these margins after resuming operations of the closed facilities will be a key catalyst.
- EBIT came in at SAR296mn, significantly higher than our estimates of SAR150mn. In addition to higher than expected sales and margins, the variance is also attributed to lower SG&A which came-in at SAR83mn vs our estimates of SAR120.5mn and 2018 average of SAR109mn. The company attributed the significant decline in opex to the efficiency programs implemented last year.
- In Q1 19, urea prices declined 19.3% qoq but increased 1.4% yoy to US\$261. Ammonia prices declined 17.2% qoq and 13.3% yoy to US\$280.
- We are Neutral on SAFCO with a PT of SAR74.6. We believe the key highlight of the results is operating efficiency despite long shutdowns. The stock is trading at 2019 PE of 16.3x, higher than the peer average of 13.2x.

## Q1 19 Results Summary

SARmn	Q1 19	Q1 18	% yoy	Q1 19f	%var <sup>^</sup>	% qoq
Revenues	719	811	(11.4)%	669	7.4%	(34.1)%
Gross income	378	358	5.6%	270	40.0 %	(45.3)%
Gross margin (%)	52.6%	44.2%	843bps	40.4%	1,224bps	(1,077)bps
EBIT	296	242	22.4 %	150	97.4%	(48.5)%
EBIT Margin (%)	41.1%	29.8%	1,133bps	22.4%	1,874bps	(1,154)bps
Net income	335	237	41.4 %	190	76.6 %	(41.0)%
Net margin (%)	46.7%	29.3%	1,741bps	28.4%	1,829bps	(549)bps
EPS (SAR)	0.81	0.57	41.4 %	0.46	76.6 %	(41.0)%

Source: Company, NCBC Research, ^ % Var indicates variance from NCBC forecasts

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## STOCK DETAILS

M52-week range H/L (SAR)	88/60
Market cap (\$mn)	9,000
Shares outstanding (mn)	417
Listed on exchanges	TADAWUL

Price perform (%)	1m	3m	12m
Absolute	0.0	(4.5)	16.0
Rel. to market	(5.6)	(14.0)	4.7

Avg daily turnover (mn)	SAR	US\$
3m	18.2	4.8
12m	21.2	5.6

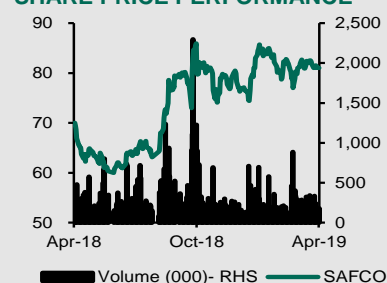
Reuters code	2020.SE
Bloomberg code	SAFCO AB
	<a href="http://www.safco.com.sa">www.safco.com.sa</a>

## VALUATION MULTIPLES

	18	19f	20f
PE (x)	19.4	16.3	15.9
PB (x)	4.3	4.0	3.8
EV/EBITDA (x)	14.4	14.1	13.9
Div Yield (%)	3.1	4.9	4.9

Source: NCBC Research estimates

## SHARE PRICE PERFORMANCE



Source: Tadawul

## RELATIVE PERFORMANCE



Source: Tadawul

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